Air Education and Training Command (AETC)
Pick-a-Base Program Business Plan

Scott D. King
Principal, UMS Group
for the
Commercial Activities Panel

In our opinion, AETC has effectively shown the benefits and proper method of formulating a comprehensive, Command-wide business plan in conjunction with A-76 requirements. Their approach is based on sound principles yielding impressive results in the private sector and offers many lessons learned for all DoD organizations.

Background

AETC was originally assigned to study 6,500 positions under the Jump Start Program. To minimize the affects on the mission and ensure maximum savings and best performance, the AETC Commander, General Newton, and Manpower officials developed the Pick-a-Base (PAB) concept. It focused the effort (positions) on a few, select bases to reduce turbulence and to reduce employee fears over "Rolling RIFs." There was also a large body of evidence showing larger studies generated greater cost savings of upto 40% for the number of positions AETC was contemplating. In addition, AETC had a great deal of experience with large, consolidated Base Operating Support (BOS) models through Vance AFB.

Strategic Business Plan Development

There are three crucial partners in any A-76 study - the manpower officials running the study, the functional area personnel responsible for defining the requirement, and the contracting personnel charged with determining the business relationships. In most studies the partners do not function as an integral team from the outset in defining the business objectives and formulating a comprehensive gameplan to achieve them. For example, contracting personnel have limited exposure to requirements definition (often waiting until the SOW is complete to advise about best practices and commercial definitions) and functional area personnel are limited to providing input about how they function and offer little about structure, cross-functional ideas, etc. As a result, DoD does not receive all of the benefits of consolidated, cross-functional efforts and contract management/administration is often extremely costly.

Such a partnership is crucial to ensure "business plan" elements necessary for requirement formulation and solicitation execution are developed. AETC demonstrated that items such as the breadth and structure of consolidation, contract type and structure, and performance management must be determined early in the process to ensure everything fits together properly. Their partnership was developed through a cross-functional Integrated Process Team (IPT), formed six months prior to the initial study. The team included the A-76 Program Manager from Manpower, a program manager from contracting, and representatives from each functional area. The team immediately sought and received a small grant to perform extensive market research. The team identified appropriate commercial peers, performed initial interviews to determine targets for benchmarking visits, and then traveled to sites such as Delta Airlines, Sun Microsystems and IBM. The visits were crucial to convincing functional area experts that there were applicable, beneficial commercial methodologies. The site visits were initially opposed due to cost and were only approved after evidence of similar efforts from the commercial sector was presented. When weighed against the value of the PAB program of $2.5 billion and the 55% savings achieved, the $15,000 in travel costs seems pretty reasonable.

The market research results were compelling and offer lessons for all DoD organizations undergoing like studies. Similar companies were achieving cost savings in excess of those achieved in DoD, but, perhaps more importantly, they were achieving them continuously – often saving 15-20% per year in the out-years of contracts. In addition, there were initial and constant performance improvements. In comparison, DoD organizations experience significant initial savings, but costs often creep up and performance remains the same or is diminished. The AETC team found the differences lay primarily in requirement and contract structure and the relationship with the provider. Although DoD continuously touts the benefits of partnering with suppliers, the AETC research illuminated the real foundations of "partnership." The basic tenets of the resulting AETC business plan are still valid and are laid out below:

1. ***Hire the experts (Insight Vs Oversight) and partner with them.*** The peers advised AETC to actively seek the best and allow/encourage them to implement innovative ideas. They structured their requirements and contract arrangements to attract them. They told AETC (and AETC had evidence that it was true) that structuring the requirement in a vacuum leads to providers who look and act just like you do – who will never push you to change and adapt. There is some benefit to this (mostly revolving around personal comfort), but such customers never achieve the available cost savings and performance enhancements available. In addition, a good partnership involved much more of a leap than AETC anticipated. One peer likened their contract relationship to that between a company president and one of his division managers. They were constantly working together to find cost savings and ways to improve services, but the provider was the primary driver of the "idea train." To that time, AETC customer/supplier relationships had been characterized as "I say - you do."

2. ***Consolidate requirements and specify outcomes to allow supplier expertise to constantly generate process improvement.*** DoD consolidation efforts often do not allow for full exploitation of cross-functional savings and performance enhancements. DoD organizations typically assign functional areas to develop their portion of the SOW and then "glue" them together, leaving many of the stovepipes and their requirements in place. AETC research showed that blocking such process improvement opportunities is costly initially, but is even more costly in the outyears. In the commercial, outcome-based environment, the supplier is able to generate large savings in years three, four, etc. of the contract as he became more familiar with the requirements of the customers and, because of the latitude allowed through the requirements document, is able to implement large scale process improvements.

3. ***The use of performance incentives and contract structure/pricing is crucial to effectively to generate continuous savings while improving quality.*** Commercial peers do not feel our traditional firm fixed price/award fee approach provides necessary incentives to the supplier to continuously generate cost savings and implement performance improvements. They maintain that under such a relationship even if the contractor reduced costs they receive little benefit since 70-75% of a typical facilities requirement is labor. The commercial firms' contract/incentive structure focused on paying the labor costs plus G&A while providing incentives to reduce labor costs through shared savings. Through this arrangement the supplier can only achieve a significant return on investment through the generation of savings continuously over the life of the contract. Such savings can only be determined, however, if a valid, detailed performance/cost baseline is known prior to solicitation. AETC knew such data would not be available in adequate detail and resolved to perform an Activity Based Costing exercise to prepare a baseline (and assist in developing the SOW). AETC also found that by changing from the traditional contract structure and realizing significant cost savings in contract outyears, a new source of commercial suppliers were willing and interested in working for the government.

4. ***The supplier must take on the role of the primary performance manager.*** As noted above, AETC found that successful suppliers "drove the train" and were proactive rather than reactive, and this extended to performance management, too. Customers performed few inspections on anything other than maintenance on the most expensive equipment. AETC, and the Air Force in general, found this very interesting in light of excessive quality assurance costs. For example, Vance AFB had grown from eight initial inspectors in the 1960s to more than 60 in 1995 an d AF-wide there were more than 5,200 personnel involved in quality assurance of some kind. Commercial suppliers regularly generated and analyzed qualitative and quantitative information on cost, timeliness and customer satisfaction against expectations. The data and any recommended actions were regularly presented and reviewed with the customer to determine actions going forward. Through this process AETC also realized that performance management efforts with MEOs to that date had been inadequate. The standard DoD approach allows the MEO little protection (beyond anecdotal evidence) against requirements creep and assertions that cost savings had not been realized or performance was inadequate. There is no business-like, on-going review of performance against targets beyond the initial phase-in period and MEO personnel are given little training in how to function in this environment. Due to this, the MEO might experience significant cost over-runs with no evidence or analysis of the cause.

The research and resulting business plan allowed AETC to overcome obstacles such as the Small Business Administration opposition to consolidation, functional area reluctance to change, command/installation coordination disconnects, and quality assurance. It was also the crucial element to keeping more than 200 key participants from every level of AETC on point over a three year period (to date). The proof, however, as they say, is in the results. To date, AETC is reporting 55% savings at the first two bases. Considering AETC originally projected a stretch target of 40-45%, and hoped for the best results at bases 3-5 as they gained experience, it seems the business plan, and its supporting tenets, were very sound.